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# SHULLY'S INDUSTRIES LIMITED

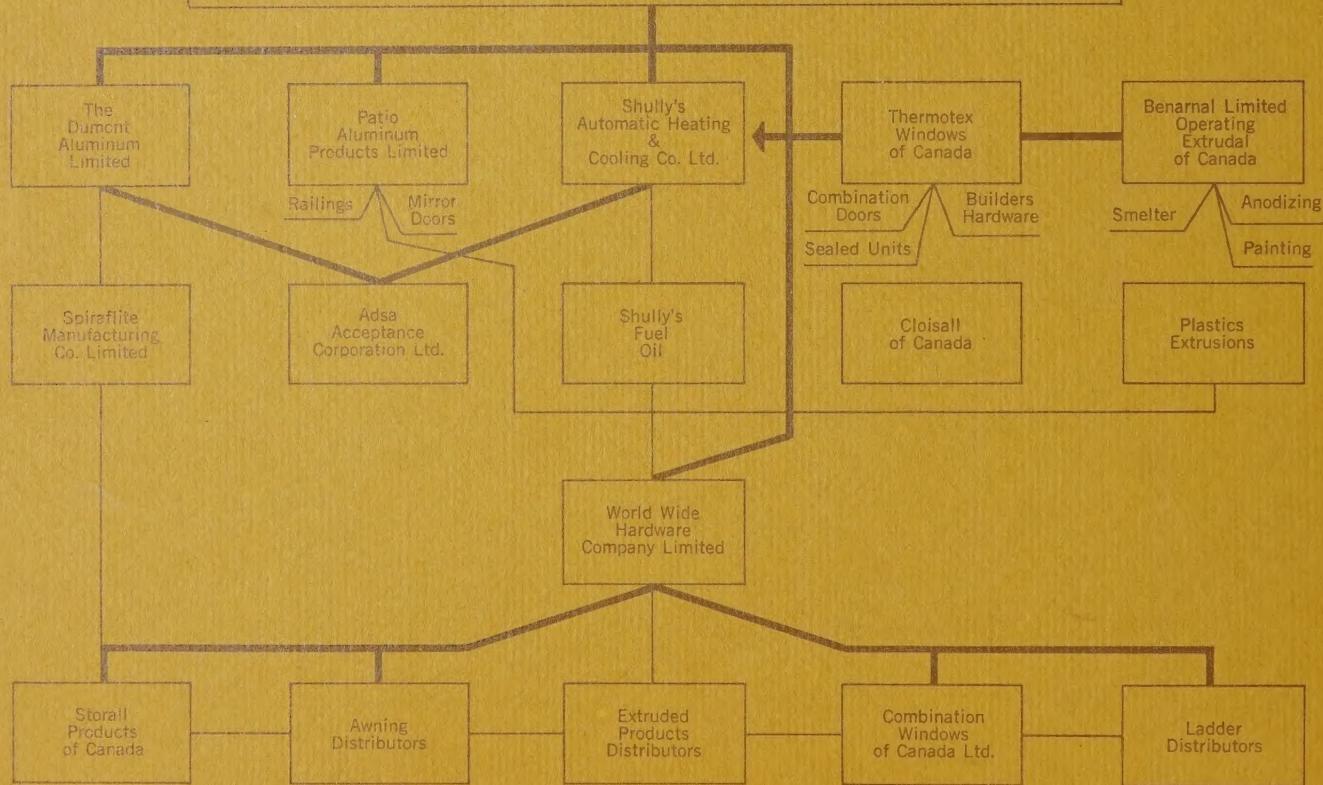
*Annual Report*

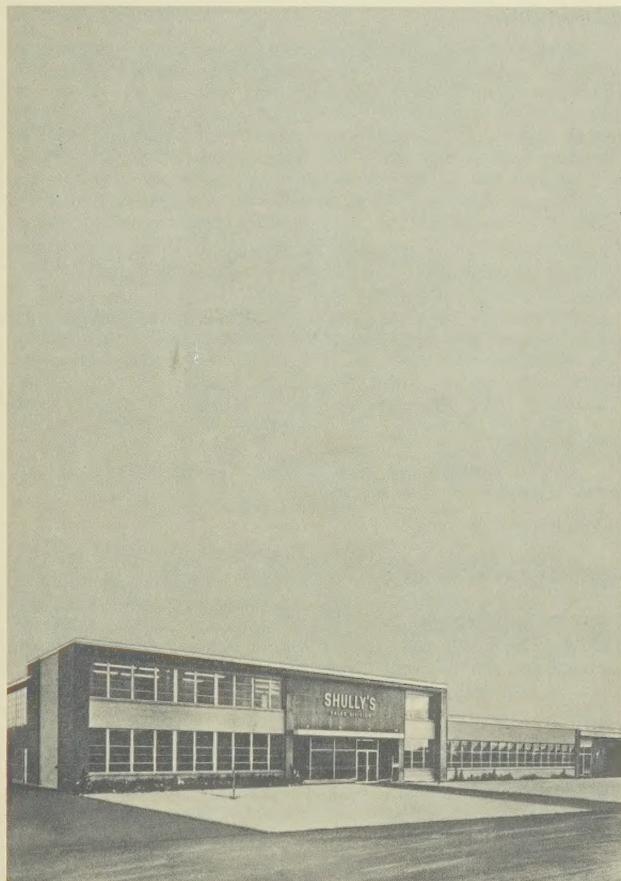


FOR YEAR ENDED  
JANUARY 31st

*1969*

## SHULLY'S INDUSTRIES LIMITED





HEAD OFFICE AND FACTORY 73 Wingold Avenue, Toronto 395, Ontario

**EXECUTIVE OFFICES:**

73 WINGOLD AVENUE, TORONTO 395, ONTARIO

**DIRECTORS:**

MAURICE SHULLY  
HAROLD IRWIN SHULLY  
GILBERT JAY SHULLY  
RAPHAEL DAVID WOLFE  
LEON ELLIOT WEINSTEIN  
ALBERT SHIFRIN, Q.C.  
LIONEL B. WHITE

**OFFICERS:**

MAURICE SHULLY,  
*President*  
HAROLD IRWIN SHULLY,  
*Vice-President and Secretary*  
GILBERT JAY SHULLY,  
*Vice-President and Treasurer*  
MAURICE BRONNER,  
*Comptroller*

**TRANSFER AGENTS AND REGISTRAR:**

GUARANTY TRUST COMPANY OF CANADA

**AUDITORS:**

PAPE, STROM, SHERMAN & LAVINE

**BANKERS:**

CANADIAN IMPERIAL BANK OF COMMERCE



## DEAR SHAREHOLDER

Your Company again has had a successful year. For the year ended January 31st, 1969 sales were \$9,045,814 compared to previous year of \$7,883,557, an increase of 14.7%. Net income after taxes was \$286,894 compared to \$193,706 of previous year, an increase of 48.1%. Average common shares outstanding were 382,823, representing earnings per share of 67.1¢ compared to previous year of 47.5¢ per share on 328,747 outstanding shares, an increase on per share basis of 41.3%.

The increase in sales and profit was contributed largely by the Shully and Dumont Divisions. In the next fiscal year, a full year's profits from subsidiaries acquired during the past year, plus the expected profit contributions of Thermotex and Extrudal, which were acquired as of April 1st, 1969, should result in continued growth. One word of caution though is necessary; subsidiaries whose sales are made almost entirely to the Construction Industry could be affected if strikes and lock-outs in the Metropolitan area last for any considerable time. Plans to expand the Thermotex plant for the purpose of integrating all manufacturing operations in one building from which considerable cost savings are expected could also be delayed by strikes.

## OPERATIONS

Sales of the heating division (fuel oil and heating apparatus) continued to increase and profit margins were maintained despite increasing operating costs. Proportionately, however, this division is becoming less significant in our overall volume of sales. It represented 23.2% of the Company's sales volume total. As volume increases in other divisions, it will likely be reduced to 12% - 13%. The division will remain, nonetheless, an important part of your Company and management is continuously alert to the possibility of acquiring smaller jobbers, as opportunity offers, to add gallonage.

Sales of Shully's and Dumont (aluminum storm and screen windows, awnings, doors, etc.) and Storall (steel outdoor utility buildings) divisions continued to increase.

The Cloisall division, formed in 1968 to manufacture and distribute a partitioning system under license from Belgian patents, may be expected to show results in the not too distant future. The system has required major changes to adapt it from European standards to meet requirements in North America. Design problems have now been overcome and the system is beginning to show acceptance.

Adsa Acceptance Corporation has maintained its long-term growth rate of 15% per annum.

## ACQUISITION POLICY

A major group of acquisitions has been made since our last annual report. Management's policy on acquisitions has, and will continue to be a strict one: only such businesses closely related and able to be integrated with our present operations will be considered, and then only if they can be purchased on terms which will enhance earnings per share of your Company.

The following acquisitions have been made since the last report:—

PATIO GROUP	Consideration	Date of Acquisition
Patio Aluminum Products Limited	\$350,000 cash	
Ray-Jal Distributors Limited	50,000 Shully common shares	Aug. 1, 1968
Allscreen Products Limited		
WORLD WIDE HARDWARE COMPANY LIMITED	\$100,000 cash, 8,000 Shully common shares	Nov. 1, 1968

## THERMOTEX GROUP

Thermotex Windows of Canada

Benernal Limited (trading as  
Extrudal Of Canada)

} \$1,400,000 cash  
55,000 Shully  
common shares  
47,000 warrants  
to purchase  
common shares  
at \$17 for five  
years

April 1, 1969

## THERMOTEX WINDOWS OF CANADA

Thermotex is actually divided into two Companies, Extrudal and Thermotex Windows. Extrudal, as the name implies, is comprised of the extrusion press and all the ancillary equipment. Aluminum is purchased in billet form, preheated and put through the extrusion press under great pressure, manufacturing aluminum profiles or sections.

Thermotex employs these profiles in the manufacture of aluminum windows and doors, as well as sealed glass units for thermo-glazing for Apartment houses and Institutional buildings.

A second extrusion press is now on order and a reclaim smelter department will be installed, so that we may re-use all scrap, giving us a sizeable internal saving.

## PATIO ALUMINUM PRODUCTS LIMITED

Patio manufactures aluminum patio doors and windows which are sold to the single home sub-division builder. Patio uses aluminum profiles and sealed glass units in all its product lines. Patio has now toolled up for a mirror door, a novel idea that has already had great acceptance by the building trade. Production will commence June 1.

## WORLD WIDE HARDWARE

This is a broad-based hardware distributing Company, operating primarily in Toronto. We have infused exclusive lines from Japan and Germany, as well as obtaining valuable Canadian and United States distributorships, so that World Wide Hardware now carries a much larger range of product. A new sales staff has been created, who are calling on the lumber trade, now exposing our complete product line to a new market. World Wide's volume and profits are expected to respond most satisfactorily to these efforts.

Thermotex will now be involved in the manufacture of aluminum ladders and secondary aluminum storm doors, which will be distributed throughout the many hundreds of outlets serviced through World Wide and Storall Products.

Until these acquisitions were made, your Company had dealt chiefly in the retail area through twenty-five Company-operated branches in Ontario and through departmental stores. In the Storall Division we developed a wholesale business mainly selling to departmental stores, hardware chains and lumber yards across Canada. We operated strictly as fabricators, depending for our supply of material and parts from other sources. Our new acquisitions complement our present activities by eliminating, to a great extent, purchases from other than our own Companies.

A program of integration is now on the drawing board. It is our intention to create facilities at the Thermotex plant by enlarging the premises, so that all manufacturing will be done in this one location, from the conversion of a raw ingot to extrusion, to final manufacture of product. This will provide large savings in manufacturing and administration costs.

In essence it means that four producing factories would be moved into one building and all present administration offices would operate from one building.

These moves are scheduled to become effective as rapidly as possible, although they will be timed so that there will be a minimum of disruption in production. All the leases on the plants being moved expire within a very short period of time.

We are hopeful that total integration can be completed within the next twelve to eighteen months.

## FINANCING

Since the close of the fiscal year the Company has placed privately, through its fiscal agents, F. H. Deacon & Co., \$2,000,000 in 20-year convertible debentures which can be converted into common shares at \$20 per share for 10 years. The Sinking Fund requirement will be \$100,000 a year starting in the eleventh year.

Your Board of Directors and management team continue to probe all avenues that will further enhance the sales and profits of your Company. Again I express my gratitude for their sincere interest and efforts. This attitude must have its desired effect. I, therefore, look forward to the continuance of improvement year by year.

MAURICE SHULLY, President.

## SHULLY'S INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

ASSETS	1969	1968
<b>CURRENT</b>		
Cash .....	\$ 60,919	\$ 11,060
Accounts receivable, less allowance for doubtful accounts .....	3,213,878	2,518,664
Inventories of raw materials, work in process and finished goods —		
at the lower of cost and net realizable value .....	1,021,786	510,573
Advances to salesmen and employees .....	91,742	66,565
Prepaid expenses and sundry assets .....	162,753	173,462
	<u>4,551,078</u>	<u>3,280,324</u>
<b>FIXED (note 3)</b>		
Motor vehicles .....	292,577	250,523
Plant and equipment .....	535,911	477,683
	<u>828,488</u>	<u>728,206</u>
Less — Accumulated depreciation .....	466,630	421,877
	<u>361,858</u>	<u>306,329</u>
<b>DEFERRED</b>		
Unamortized development costs — new products .....	25,889	32,362
Unamortized debenture discount and issue expenses .....	26,502	40,908
	<u>52,391</u>	<u>73,270</u>
Fuel oil distribution accounts .....	938,335	938,335
Goodwill and patents (note 4) .....	1,151,568	652,810
	<u>\$7,055,230</u>	<u>\$5,251,068</u>

On behalf of the Board:

MAURICE SHULLY (Director) GILBERT JAY SHULLY (Director)

The attached notes form an integral part of these financial statements.

## CONSOLIDATED BALANCE SHEET.....AS AT JANUARY 31, 1969

	LIABILITIES	1969	1968
<b>CURRENT</b>			
Bankers' advances (secured) .....	\$1,947,106	\$ 903,800	
Accounts payable and accrued liabilities .....	861,559	834,004	
Income and other taxes .....	213,977	136,013	
	<hr/> 3,022,642	<hr/> 1,873,817	
6% Convertible debentures — maturing March 7, 1972 (note 5) .....	189,500	614,000	
	<hr/> 3,212,142	<hr/> 2,487,817	
Unearned finance charges .....	162,723	138,646	
Deferred income taxes .....	<hr/> 48,234	<hr/> 45,813	
 SHAREHOLDERS' EQUITY			
<b>CAPITAL STOCK</b> (note 6)			
<i>Authorized:</i>			
250,000 3% Non-cumulative, redeemable, voting, preference shares, par value \$5 each			
2,050,000 Common shares of no par value			
<i>Issued and fully paid:</i>			
200,000 Preference shares (1968 - 250,000) .....	1,000,000	1,250,000	
479,172 Common shares (1968 - 328,747) .....	2,135,309	1,036,438	
	<hr/> 3,135,309	<hr/> 2,286,438	
<b>RETAINED EARNINGS</b> .....	496,822	292,354	
	<hr/> 3,632,131	<hr/> 2,578,792	
	<hr/> \$7,055,230	<hr/> \$5,251,068	



**SHULLY'S INDUSTRIES LIMITED**

**CONSOLIDATED STATEMENT OF INCOME** *for year ended January 31, 1969*

	1969	1968
Sales .....	\$ 9,045,814	\$ 7,883,557
Cost of sales, selling and administrative expenses (before undernoted items) .....	8,263,725	7,338,131
Provision for depreciation and amortization .....	53,272	44,632
Debenture interest .....	26,674	37,470
Bank interest .....	100,550	74,104
	<hr/> 8,444,221	<hr/> 7,494,337
Income before taxes .....	601,593	389,220
Income taxes .....	314,699	195,514
Net income .....	<hr/> \$ 286,894	<hr/> \$ 193,706
Earnings per share (after preferred dividends) .....	* 67.1¢	47.5¢

\*Earnings per share have been calculated using the average number of shares outstanding during the year.

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS** *for year ended January 31, 1969*

	1969	1968
Balance — beginning of year .....	\$ 292,354	\$ 175,048
Add — Net income for year .....	286,894	193,706
Gain on 6% convertible debentures, purchased for cancellation .....	2,647	2,857
	<hr/> 581,895	<hr/> 371,611
Deduct — Dividends paid:		
3% Non-cumulative preference shares .....	30,000	37,500
Common shares .....	39,828	32,529
	<hr/> 69,828	<hr/> 70,029
— Debenture discount and issue expenses amortized .....	15,245	9,228
	<hr/> 85,073	<hr/> 79,257
Balance — end of year .....	<hr/> \$ 496,822	<hr/> \$ 292,354

## **CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS**

*for year ended January 31, 1969*

<i>SOURCE OF FUNDS</i>	1969	1968
From operations:		
Net income for year .....	\$ 286,894	\$ 193,706
Add — Expenses not requiring cash outlay:		
Depreciation and sundry charges .....	62,847	53,607
	<hr/>	<hr/>
Increase (decrease) in deferred income taxes .....	349,741	247,313
Sundry items .....	2,421	(7,817)
	<hr/>	<hr/>
	21,804	14,285
	<hr/>	<hr/>
	373,966	253,781
	<hr/>	<hr/>
<i>APPLICATION OF FUNDS</i>		
Dividends .....	69,828	70,029
Purchase of fixed assets .....	87,702	36,213
Cash investment in subsidiaries .....	\$450,000	
	<hr/>	<hr/>
Less — Working capital at dates of acquisition .....	378,696	71,304
Redemption of debentures .....	<hr/>	—
	23,203	17,943
	<hr/>	<hr/>
	252,037	124,185
	<hr/>	<hr/>
Increase in working capital .....	121,929	129,596
Working capital at beginning of year .....	1,406,507	1,276,911
	<hr/>	<hr/>
Working capital at end of year .....	\$1,528,436	\$1,406,507
	<hr/>	<hr/>

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF SHULLY'S INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Shully's Industries Limited and its subsidiary companies as at January 31, 1969, and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1969, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
May 15, 1969.

PAPE, STROM, SHERMAN & LAVINE  
Chartered Accountants

## NOTES TO THE FINANCIAL STATEMENTS

for year ended January 31, 1969

### 1. Acquisitions

During the year, the company acquired all of the issued and outstanding shares of Patio Aluminum Products Limited, Ray-Jal Distributors Limited, Allscreen Products Limited, and World Wide Hardware Company Limited.

### 2. Basis of consolidation

The consolidated financial statements include the accounts of Shully's Industries Limited and all subsidiary companies.

The consolidated statements of income and retained earnings include the operating results of Patio Aluminum, Ray-Jal Distributors and Allscreen Products for the period August 1, 1968, to January 31, 1969, and the operating results of World Wide Hardware for the period November 1, 1968, to January 31, 1969, and of all other subsidiaries for the full fiscal year ended January 31, 1969.

### 3. Fixed assets

Fixed assets as at February 1, 1962, were recorded in the accounts at appraised value, and subsequent additions have been recorded at cost. Depreciation has been calculated in accordance with generally accepted accounting principles applied to appraised values or original cost, whichever was applicable.

### 4. Goodwill and patents include the following items:

	1969	1968
Patents and franchises .....	\$ 555,962	\$552,810
Excess of cost of shares in subsidiaries over book value at acquisition .....	495,606	—
Goodwill paid on acquisition of assets of subsidiary .....	100,000	100,000
	<u>\$1,151,568</u>	<u>\$652,810</u>

### 5. 6% Convertible debentures

The debentures are subject to redemption and eligible for conversion under the provisions of a trust indenture dated March 7, 1962, between the company and the Guaranty Trust Company of Canada, as trustee. The debentures are secured by a first floating charge on the assets of the company.

During the year, \$25,800 principal amount of debentures were purchased for cancellation for an aggregate cash consideration of \$23,203, and \$398,700 principal amount of debentures were converted into 39,870 common shares.

Subsequent to the balance sheet date, the remaining outstanding debentures were retired in connection with a new issue of debentures as described in note 8. (a) below.

### 6. Capital stock

(a) During the year, 50,000 preference shares having a par value of \$5 each were converted into 50,000 common shares.

By Supplementary Letters Patent granted September 18, 1968, in accordance with a Special Resolution approved by the shareholders, the right attached to the remaining preference shares to convert into common shares was deleted.

(b) During the year, the following changes took place in the issued and fully paid common share capital:

	Number of common shares	Amount
Balance at beginning of year .....	328,747	\$1,036,438
6% Debentures converted .....	39,870	398,700
Shares issued for cash .....	2,555	4,171
Preference shares converted .....	50,000	250,000
Shares issued as partial consideration for the acquisition of subsidiary companies .....	58,000	446,000
Balance at end of year .....	<u>479,172</u>	<u>\$2,135,309</u>

(c) The company has an Executive and Key Employees' stock option plan under which options to purchase shares at 10% below the market price may be granted to full time employees. During the year, 2,555 common shares were issued pursuant to the exercise of such options for \$4,171 cash.

At January 31, 1969, options were outstanding in respect of 6,680 common shares at an average price of \$1.69 per share, and 1,700 shares remain available for future issue under the plan.

7. Remuneration of directors and senior officers aggregated \$157,735 (1968 - \$155,007)

### 8. Events subsequent to fiscal year end

(a) Of the \$189,500 6% convertible debentures outstanding as at January 31, 1969, \$158,100 were converted to 15,810 common shares and \$31,400 were purchased for cancellation.

On March 15, 1969, the company issued 7 1/2% secured sinking fund convertible debentures in the amount of \$2,000,000 to mature March 15, 1979, into 50 common shares for each \$1,000 principal amount of such debenture so converted, and are secured by a first floating charge on the assets of the company.

(b) The company entered into an agreement to purchase all of the issued and outstanding shares of Benarnal Limited (trading as Extrudal of Canada) for a consideration of \$1,170,000 payable by the issuance of 55,000 common shares of Shully's Industries Limited valued for this purpose at \$17 per share and 47,000 Series A share purchase warrants valued for this purpose at \$5 each.

In conjunction with this agreement, the company agreed to purchase the business and net assets of Thermotex Windows of Canada for approximately \$1,400,000 in cash.

These transactions were completed on March 31, 1969.

(c) The company has authorized the creation of Series A share purchase warrants entitling the holders to purchase an aggregate of 400,000 common shares at a price of \$17 per share up to March 17, 1974; 47,000 of these warrants were issued in connection with the purchase of the shares of Benarnal Limited as set out above.

## A YEAR OF ACQUISITIONS



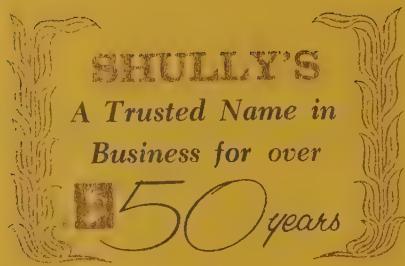
THERMOTEX WINDOWS OF CANADA



PATIO ALUMINUM PRODUCTS LIMITED



WORLD WIDE HARDWARE COMPANY LIMITED





March 27, 1969.

Dear Shareholder:

I am pleased to advise you that we have completed private placement of \$2,000,000 of 7 1/2% Secured Sinking Fund 20 year Convertible Debentures, convertible into common shares at \$20.00 per share for ten years.

Placement proceeds have been used to redeem the \$31,450 balance of a 6% convertible debenture and to purchase Benarnal Ltd. and Thermotex Windows of Canada, two related private companies manufacturing aluminum windows for apartment dwellings, for approximately \$1 million.

The balance of the \$2 million reduces bank loans and will be used for general corporate purposes.

Purchase of the Thermotex group represents a major step in our continuing efforts to acquire companies that may be integrated with our core businesses. Benarnal's extrusion press will now supply all aluminum profiles required by each of the Shully fabricating divisions: Shully's Aluminum, Dumont, and Patio Aluminum.

Markets now serviced include the individual home (Shully's, Dumont), sub-division building (Patio, acquired July 1968), and, with Thermotex, apartment housing.

Opportunities to increase purchasing power and product distribution are actively being sought. A significant increase in both sales and profits in our 1969 - 1970 year is anticipated.

Yours truly,

Maurice Shully,  
President.

MS:ms





## SHULLY'S INDUSTRIES LIMITED

## EXECUTIVE OFFICES:

73 WINGOLD AVENUE, TORONTO 19, ONTARIO

## DIRECTORS:

MAURICE SHULLY  
HAROLD IRWIN SHULLY  
GILBERT JAY SHULLY  
RAPHAEL DAVID WOLFE  
LEON ELLIOT WEINSTEIN  
ALBERT SHIFRIN, Q.C.  
BEN BURKE

## OFFICERS:

MAURICE SHULLY,  
*President*  
HAROLD IRWIN SHULLY,  
*Vice-President and Secretary*  
GILBERT JAY SHULLY,  
*Vice-President and Treasurer*  
MAURICE BRONNER,  
*Comptroller*

## TRANSFER AGENTS AND REGISTRAR:

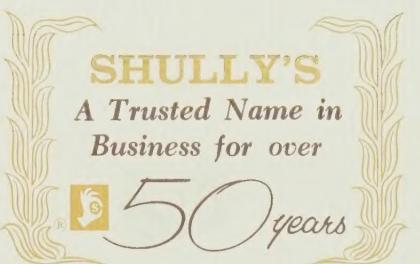
GUARANTY TRUST COMPANY OF CANADA

## AUDITORS:

PAPE, STROM, SHERMAN & LAVINE

## BANKERS:

CANADIAN IMPERIAL BANK OF COMMERCE



**SHULLY'S**  
INDUSTRIES LIMITED

INTERIM REPORT  
FOR THE SIX MONTHS  
ENDED JULY 31, 1969

# SHULLY'S INDUSTRIES LIMITED

AND SUBSIDIARY COMPANIES

## INTERIM REPORT TO SHAREHOLDERS

In the six months ended July 31, 1969 your Company earned \$165,888 compared to \$79,569 in the six months ended July 31, 1968. Earnings per share were 28.6¢ compared to 18.5¢, an increase of 54.6%.

These gratifying results were achieved in spite of an impact on the earnings of two subsidiaries because of a long drawn out Metropolitan Toronto construction industry strike and related problems. In conjunction with high-cost money and an assumed lower level of housing and apartment starts these factors may have a continuing effect on the second half earnings of these subsidiaries. Fortunately, however, our diversified activities in the industry run from retail to institutional, giving us a broad-based source of income.

Work has now started on a new 160,000 sq. ft. plant housing all our aluminum fabricating and extrusion operations under one roof. The Company anticipates important efficiencies to flow from this in the fiscal year ending January 31, 1971. Little or no disruption of operations is expected in the move.

It may be worth noting that normally there is a seasonal influence in the Company's earnings. The larger portion of earnings arise in the second half of the fiscal year. We are encouraged to believe that this will be the case again this year.

M. SHULLY,  
President

## CONSOLIDATED STATEMENT OF INCOME

FOR SIX MONTHS ENDED JULY 31, 1969

	1969	1968
Sales	\$6,219,583	\$4,012,142
Cost of sales, selling and administrative expenses (before undernoted items)	\$5,741,976	\$3,771,171
Provision for depreciation and amortization	49,687	28,923
Debenture interest	54,600	18,391
Bank interest	68,132	31,288
Income before taxes	\$5,914,395	\$3,849,773
Income taxes	305,188	162,369
Net income	139,300	82,800
Common shares issued	\$ 165,888	\$ 79,569
Earnings per share (after preferred dividend of \$15,000; 1968 - \$18,750) — see note	527,317	328,747
	28.6¢	18.5¢

NOTE — Earnings per share have been calculated using the average number of shares outstanding during the respective periods.

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR SIX MONTHS ENDED JULY 31, 1969

### Source of Funds

	1969	1968
Net income	\$ 165,888	\$ 79,569
Depreciation and sundry charges	85,308	24,643
Funds provided from operations	\$ 251,196	\$ 104,212
Issue of 7½% convertible debentures	2,000,000	—
Increase (decrease) in deferred income taxes	40,000	(4,000)
	\$2,291,196	\$ 100,212

### Application of Funds

Cash investment in subsidiaries	\$1,361,314	
Less — Working capital at dates of acquisition	698,842	\$ 662,472
Deferred acquisition and financing costs	143,671	—
Redemption of 6% debentures	31,450	1,531
Purchase of fixed assets	164,017	6,913
Dividends	27,499	16,437
Repayment of loans	157,500	—
	\$1,186,609	\$ 24,881
Increase in working capital	1,104,587	\$ 75,331
Working capital at beginning of period	1,528,436	1,406,507
Working capital at end of period	\$2,633,023	\$1,481,838